

PUBLIC EMPLOYEES RETIREMENT BOARD MEETING

July 18, 2005

8:30 A.M.

A regular meeting of the Public Employees Retirement Board convened at 8:35 a.m., Monday, July 18, 2005, in the TierOne Community Meeting Room at 1221 N Street, Lincoln, Nebraska.

The Board members were notified of this meeting by letter dated July 8, 2005. Public notice of this meeting was published in the Lincoln Journal Star and Omaha World Herald on Monday, July 11, 2005. Mr. Peters chaired the meeting and Ms. Hansen recorded the minutes.

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| MEMBERS PRESENT: | CHARLES PETERS, CHAIR |
| | DENIS BLANK |
| | WILLIAM HASTINGS |
| | ROGER REA |
| | DALE KAHLA |
| | GLENN ELWELL |
| | MARK SHEPARD |
| | CAROL KONTOR, EX-OFFICIO |

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| MEMBERS ABSENT: | JULIA MOELLER, VICE-CHAIR |
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NONMEMBERS PRESENT:

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| ANNA SULLIVAN | MARY JOCHIM |
| Director | Sterling Financial Advisors |
| JOE SCHAEFFER | JASON HAYES |
| NPERS Legal Counsel | Legislative Retirement Counsel |
| RANDY GERKE | KRISTA DAVIS |
| NPERS Accounting & Finance Manager | State Auditor's Office |
| TERESA ZULAUF | JANE HANSEN |
| NPERS Internal Auditor | NPERS Retirement Plan Supervisor |

Agenda Items 1 and 2 - Meeting Called to Order: Chairperson Peters called the July 18, 2005, Board Meeting to order at 8:35 a.m. Present at roll call: C. Peters, D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, M. Shepard and C. Kontor. Absent: J. Moeller.

Excuse Member: Judge Hastings moved to excuse Ms. Moeller from the meeting. Mr. Kahla seconded the motion. Members voted as follows: For: C. Peters, M. Shepard, D. Blank, W. Hastings, R. Rea, D. Kahla, and G. Elwell. Against: None. Motion carried.

Agenda Item 3 - Approval of Minutes: Judges Hastings suggested that the word "absorption" replace the word "takeover" in the Director's report. Ms. Sullivan agreed that this was a good term to use in the minutes when referring to the proposed OPS action.

Mr. Rea moved that the minutes of the June 23, 2005, Board meeting be approved with the correction noted. Motion was seconded by Judge Hastings. Members voted as follows: For: M. Shepard, D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, and C. Peters. Against: None. Motion carried.

Agenda Item 4 - Approval of Budget Status Report & June Retirement Report: Judge Hastings moved to approve the budget status report and the June Retirement Report. Motion was seconded by Mr. Rea. Members voted as follows: For: D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, C. Peters, and M. Shepard. Against: None. Motion carried.

Agenda Item 5 - Public Comments or Correspondence from Citizens: There were no public comments or correspondence from citizens with business not scheduled on the agenda.

Agenda Item 6 – Review of Board Retreat Plans: Ms. Sullivan noted that the Board's Retreat Committee has met twice, and she has summarized the results of those two meetings. She distributed a copy of the report to the Board. The retreat will be held in August and issues to be covered will include pension design, legislation, fiduciary duties, and the PERB's role regarding benefit enhancements. Actuary topics will include pension funding, the state service annuity, and the actuary's role in providing projections to the legislature on the future funded status of the plan.

Mr. Rea asked whether any of the interim studies will be completed by the time of the retreat. Ms. Sullivan stated that it would be quite early for those to have been undertaken and completed by August; much of the work occurs from August through October.

Work with the actuary will be scheduled for Sunday of the retreat beginning at noon, with regular business to follow on Monday.

Mr. Peters asked that there be flexibility to the agenda to allow for the inclusion of any new items that may need to be covered.

Agenda Item 7 – Legislative Implementation Update: Mr. Schaefer stated that he has received some additional clarification on proposed 415 rules.

He reported that he had attended the NAPPA (National Association of Public Pension Attorneys) conference and had participated in some very good sessions there.

Mr. Rea asked whether there were any hold-over bills from this session of the legislature that should be discussed at the retreat. Mr. Schaefer responded there are a couple that may possibly be advanced in the next session. Ms. Sullivan noted that some of these bills may have a connection with the current interim studies.

Mr. Rea asked if there had been any congressional response from the PERB's letter regarding the 415 issue. Ms. Sullivan responded that Congressman Tom Osborne had responded and thanked her for the letter.

Agenda Item 8 – State and County 2004 Cash Balance Final Actuary Report:

Ms. Sullivan distributed copies of the cash balance plan valuation prepared by the actuary.

She stated the actuary reported there was no material impact to his valuation due to the revision of the financial return numbers reported by State Street. The actuary further confirmed that the revised statements did not present a concern with regard to the award of the 2.8 percent cash balance plan dividend payment to plan members. The required reserve for the plan can be maintained.

Mr. Blank asked if this change to the statements and its timing was an unusual event.

Ms. Kontor noted we would not anticipate a similar problem next year. This situation was due to a slight difference still in place between the investment strategy of the cash balance plan and the defined benefit plans. This difference resulted in the need to change the plan accounting methodology used by State Street Bank. Going forward, State Street will continue to use the revised approach to accommodate the difference.

Mr. Blank moved to accept the new cash balance plan actuary report. Motion was seconded by Mr. Shepard. Members voted as follows: For: D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, C. Peters, and M. Shepard. Against: None. Motion carried.

Agenda Item 9 - Investment Council Update: Ms. Kontor stated that the Investment Council is working on implementation of changes from its last meeting, and it will still be another week or two before fiscal year numbers are available.

Ms. Kontor reported she and Ms. Sullivan are currently working on aspects of the new "Investor Select Fund", which is to be ready the first week of September 2005. This is a new fund for the defined contribution options in the State and County retirement plans and deferred compensation plan, and will be invested in a manner substantially similar to the investment strategy used by the Investment Council for the defined benefit plans.

Mr. Blank noted he had received an e-mail from a plan participant who had wanted to see more indexed funds offered. He asked whether this has been considered. Ms. Sullivan noted that this member had also been interested in identifying the ticker symbol for Barclay's, the new international fund manager.

Ms. Kontor noted that there are currently five index funds, and that they cover the major asset classes in the market.

Ms. Jochim of Sterling Financial commented that more options will many times lead to more confusion. Further, she stated there is often very limited participation in anything beyond four or five funds.

Ms. Sullivan added that the last year-end report from Ameritas shows the average participant invested in only 2.5 to 3 of the current 11 funds.

Mr. Rea moved to accept the Investment Council report. Motion was seconded by Mr. Kahla. Members voted as follows: For: W. Hastings, R. Rea, D. Kahla, G. Elwell, C. Peters, M. Shepard, and D. Blank. Against: None. Motion carried.

Agenda Item 10 – Director’s Report: Ms. Sullivan reported that the agency has named its 2005 Employee and Manager of the Year. Ms. Pam Williamson in the Education Services department will represent the agency as Employee of the Year and Randy Gerke, the Accounting and Finance Manager, was named Manager of the Year. There will also be length of service awards at the October ceremonies. Teresa Zulauf, the Internal Auditor will be recognized for ten years of service with the State.

Ms. Sullivan reported that as a part of the State of Nebraska’s CAFR (Consolidated Annual Financial Report), the agency’s IT area was reviewed. The audit reviewed the system and security of our IT system and others within the state. Ms. Sullivan stated we have received a couple of comments, but none were major.

Ms. Sullivan will be meeting this week with fellow retirement systems director Mike Smith of the Omaha Retirement System.

She has also been requested to speak at School Administrator Days held in Kearney each year. She had an opportunity to visit with administrators at the legislative wrap-up meeting held at the Cornhusker on June 28. Both events are opportunities for education and communication with the administrators.

Ms. Sullivan reported that the annual COLA for School, Judges, and Patrol plan members was processed at 2.5 percent in the past week.

She then reviewed the master lease and explained how it has been a very good way to finance the IT project by spreading the cost over time. Currently, it is being used to finance the purchase of PCs for the agency.

Mr. Peters asked whether Ms. Sullivan and Ms. Kontor could provide numbers on the advantages to the process of using the master lease when borrowing.

He indicated that although there have been earnings associated with this form of borrowing, it can sometimes be perceived in a negative manner because “payments” are involved.

Ms. Sullivan responded that a cost-benefit analysis had initially been completed by past Investment Officer Rex Holsapple, but she would work on a recap of the benefits of the master lease.

Mr. Elwell had received an inquiry and asked about the average amount of time involved before benefits are paid out to patrol plan members. Ms. Sullivan responded there are some members who fall under the Halpin decision and require a slightly longer timeframe to be calculated than the normal goal of less than sixty days. The reporting of the final leave breakdown amounts involved under Halpin may occur in the month after the final pay causing a delay. She added that the agency's new technology plan does allow for a 95 percent benefit payment to members pending final reporting.

Mr. Blank moved to approve the Director's report. Motion was seconded by Mr. Kahla. Members voted as follows: For: R. Rea, D. Kahla, G. Elwell, C. Peters, M. Shepard, D. Blank, and W. Hastings. Against: None. Motion carried.

The Board adjourned for a break at 9:40 a.m. and reconvened at 9:49 a.m.

Agenda Item 11 - Executive Session: At 9:50 a.m., Judge Hastings moved that the Board exit Regular Session and convene in Executive Session for the purpose of discussing the Director's evaluation, disability applications from plan members, and pending legal matters. Motion was seconded by Mr. Elwell. Members voted as follows: For: D. Kahla, G. Elwell, C. Peters, M. Shepard, D. Blank, W. Hastings, and R. Rea. Against: None. Motion carried.

At 10:40 a.m., Mr. Rea moved that the Board exit Executive Session and reconvene in Regular Session. Motion was seconded by Mr. Kahla. Members voted as follows: For: G. Elwell, C. Peters, M. Shepard, D. Blank, W. Hastings, R. Rea, and D. Kahla. Against: None. Motion carried.

Agenda Item 12 – Board Action on Executive Session Topics: Mr. Shepard moved to approve the performance review of the Director and the compensation increase of three percent, effective July 1, 2005. Mr. Kahla asked that the motion be amended to include that the Director's review had been "above satisfactory." Mr. Shepard amended the motion to include this modification. Motion was seconded by Mr. Blank. Members voted as follows: For: C. Peters, M. Shepard, D. Blank, W. Hastings, R. Rea, D. Kahla, and G. Elwell. Against: None. Motion carried.

Mr. Rea moved for approval of the disability applications of Dooley-Winans and Visger. Mr. Elwell seconded the motion. Members voted as follows: For: M. Shepard, D. Blank, W. Hastings, R. Rea, D. Kahla, G. Elwell, and C. Peters. Against: None. Motion carried.

Mr. Schaefer noted that a question had arisen regarding the newly granted per diem legislation for the Board members as it relates to those Board members actively employed by the state. He had reviewed the per diem provisions with the counsel for the Retirement Committee who had stated that the per diem payment is similar to election work or jury duty. In both of these types of service, the employee is compensated in addition to the regular

compensation. Mr. Schaefer recommended that any Board member still feeling uncomfortable accepting the per diem payment would have the option to not cash the warrant.

Mr. Shepard commented that in his school district, jury duty pay is reimbursed to the district. He asked whether there would be any means to have the check cut directly to the school district.

Mr. Kahla also stated that he believed his per diem would need to go to the school. The school is paying him as it would if he attended a workshop; if the workshop had a stipend, it would be given to the school.

Ms. Sullivan responded that the per diem is not actually a stipend.

Ms. Kontor added that there is an issue of indemnification to be considered with regard to accepting the per diem. In the event of lawsuits, there is a state statute which indemnifies the state's employees and officials under certain circumstances. By receiving the per diem, which includes a form W-2, a Board member clearly becomes an employee of the state and is covered by the indemnification statute.

Ms. Sullivan noted that this protection would be very valuable in the event that a member files an action against the Board because of an action it may take.

Agenda Item 13 – Future Meetings/Agendas: With regard to the upcoming Board retreat, Ms. Sullivan noted that the retreat would begin on Sunday with lunch. The actuary will work with the Board on Sunday, with regular business to follow on Monday.

Mr. Blank requested flexibility to the agenda to allow for discussion topics which may come up.

The Board will be discussing the topic of DC vs. DB plans.

Mr. Peters asked that a copy of the Retirement Committee Principles be brought to the retreat meeting.

Ms. Sullivan reported that for the annual joint meeting with the Investment Council, she had been waiting to set the date until it was known when the actuary will be prepared to make his actuary report.

Meeting dates of November 15, November 8, and November 14 (in order of preference) were suggested. Ms. Kontor will review those dates with the Council to determine which would work best.

Mr. Rea asked which Rules and Regulations will be in process for revisions. Ms. Sullivan responded that by the September meeting, the rules needing revisions will be presented to the Board.

The next meeting will be the Board retreat, held on Sunday, August 14, and Monday, August 15, 2005, at the Lied Conference Center, 2700 Sylvan Rd., Nebraska City, Nebraska.

Agenda Item 14 - Chairperson's Comments: Mr. Peters noted that the NCTR Convention will be held from October 6-10, 2005, in New Orleans.

The Board adjourned for a break at 11:20 a.m. and reconvened at 11:40 a.m.

Mr. Blank left the meeting during the break.

Agenda Item 15 - Adjournment: Judge Hastings moved that the meeting adjourn. Motion was seconded by Mr. Rea. Members voted as follows: For: D. Kahla, G. Elwell, C. Peters, W. Hastings, M. Shepard, and R. Rea. Against: None. Motion carried.

The meeting adjourned at 11:45 p.m.

Anna J. Sullivan
Director